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Omnichannel Business Strategies in Banking

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Executive Summary

- The past five years have been exceedingly challenging for the banking industry, causing financial institutions (FIs) to critically evaluate current and future business practices.

- Banks continue to close bank branches as branch visits continue to decline. Consequently, FIs are evaluating their business models and channel strategies to make them more efficient and customer focused.

- As FIs continue to search for ways to improve efficiencies, customer service, and customer satisfaction, many are evaluating business strategies involving holistic treatment of channels. Hence, many FIs are investigating omnichannel banking, and a move toward this strategy is under way.

- Omnichannel banking includes tighter integration with core and channel systems than is typically seen in multichannel banking.

- Omnichannel banking shows promise, but implementing it is hard to do and requires considerable time, patience, and resources. It requires a thorough review of existing processes and systems, including a synchronization of core, customer relationship management, offer management, and channel solutions. There are many issues to sort out.

- Even with all of the challenges entailed, the end result of real-time access to customer information in core and channel systems is expected to be worth the effort.

When you come to a fork in the road, take it.

The future ain't what it used to be.

–Yogi Berra

Introduction

Baseball great "Yogi" Berra is famous for his seemingly nonsensical but often quite profound comments about life. The two Yogi-isms cited above apply nicely to the ongoing changes in the way financial institutions view banking channels.

To be successful in today's challenging business environment, banks and other financial institutions must be creative and fluid in the way they reach out to, engage, and service their customers and members. Moving beyond a view of channels as silos of information is key to the success of today's financial institutions.

But how can institutions move beyond the traditional monochannel view of the banking world and embrace multichannel and omnichannel processes and systems? Mercator Advisory Group addresses this question and reviews related issues in this report.

Evolving Customer Needs Are Driving Changes in All Banking Delivery Channels

The past half-decade has been challenging for both consumers and financial institutions. Banking customers and credit union members are grappling with lower returns on their accounts, higher fees, and efforts to redirect them toward lower-cost, self-service channels. Financial institutions are grappling with a wide range of vexing challenges, from a reduction in revenues and net interest margins, to increases in costs—particularly servicing costs—that are hurting overall profitability for banks and credit unions of all sizes.

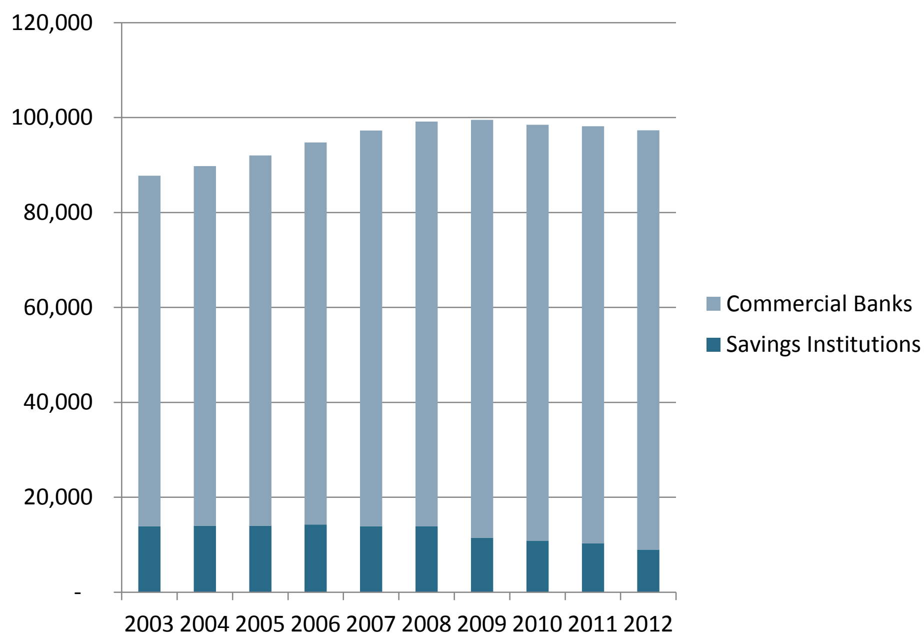
Many of the more progressive financial institutions are seeking better and more efficient ways to conduct business, and some are making significant changes to their business models. Some are offering new and innovative services to better serve their customers and members. Initially, the FIs offered incremental options, but increasingly they are offering solutions that span multiple channels and offer access and insight to multiple channels simultaneously.

Branch Strategy

Financial institutions are concerned with finding a way to accomplish two seemingly incompatible tasks: providing high levels of customer service while trying to reduce their cost of sales. This balancing act is the subject of much executive attention.

At the same time, a wide-scale reduction in the number of branches has begun. This trend began just prior to the financial crisis for savings institutions and other small FIs around 2006, and around 2009 for commercial banks. As can be seen in Figure 1, the total number of bank branches peaked in 2009, which coincides with the peak in the number of commercial banks. The number of savings institutions peaked in 2006. Overall, the total number of bank branches was down about 2.2% from 2009 to 2012, with commercial banks up marginally (about four-tenths of a percent), and savings institutions down 22% (and down 37% from their peak in 2006).[i]

Figure 1: Number of FDIC-Insured Branches in the United States, 2003–2012



Sources: Federal Deposit Insurance Corporation, Mercator Advisory Group

These trends show the dichotomy within and between commercial banks, savings institutions, and other FIs. While some commercial banks are expanding opportunistically, other FIs are contracting, and the overall trend is expected to head downward—with further reductions in branch totals totaling between 5% and 15% over the next few years.

Mercator Advisory Group research suggests branch totals in the U.S. will be reduced by about 5–8% by mid-decade and likely higher for some of the larger national and regional banks. This is why FIs are considering new business models that leverage existing branch networks and extend their reach through multichannel collaboration.

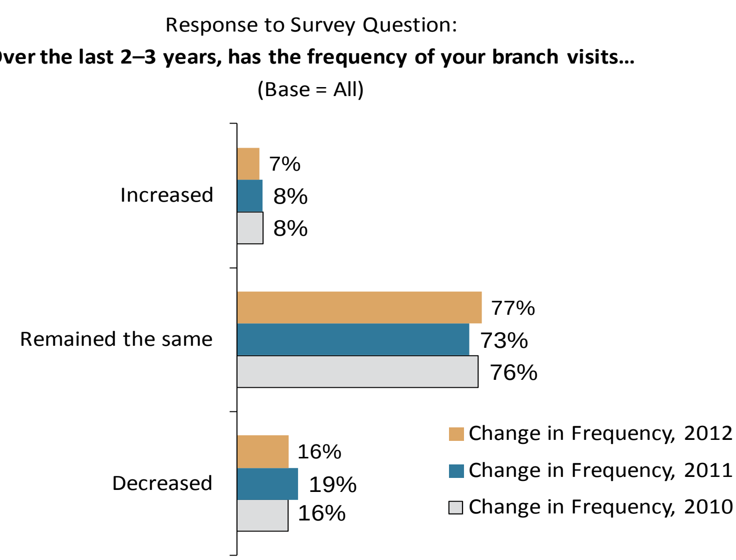
Customer Profiles

The Number of Branch Visits Is Stabilizing, at Least for Now

About 84% of consumers responding to the Mercator Advisory Group CustomerMonitor Banking Channels Survey Series survey in October 2012 note that their bank branch visits have increased or remained the same. This is an increase of 3 percentage points from our 2011 survey results and a leveling-off after a slow decline. There is a corresponding reduction of 3 percentage points in the number of consumers noting a decrease in their branch visits (Figure 2).

While it is likely that the increase in usage of easy-to-use self-service options in the ATM, mobile banking, and online banking channels, coupled with a reduction in total branches, will result in fewer branches over time, this trend will likely occur gradually. Branches still provide considerable value and are a core component of channel strategy in banking today.

Figure 2: Frequency of Branch Visits Is Leveling Off



Source: Mercator Advisory Group CustomerMonitor Survey Series, 2010, 2011, 2012

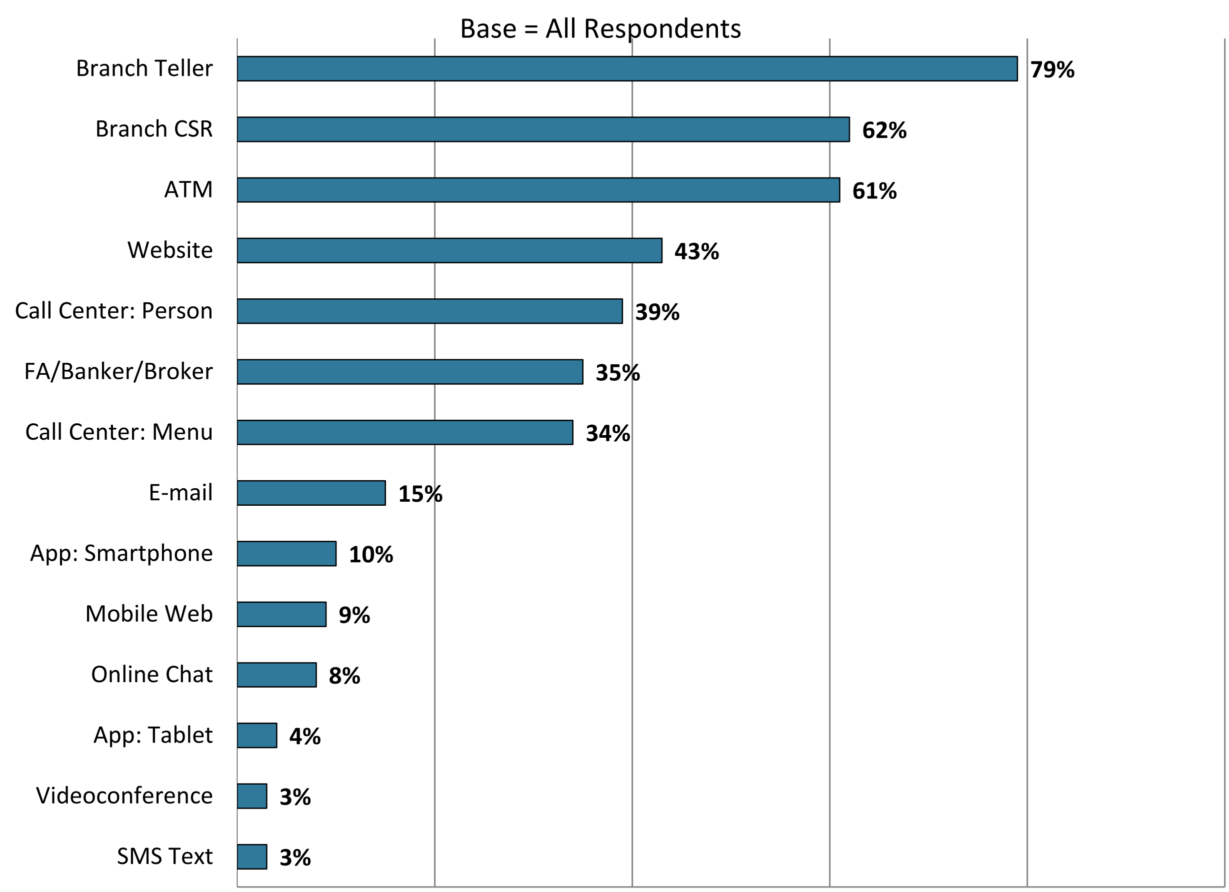
Consumers Choose to Bank in Many Ways at Different Times

As can be seen in Figure 3, branches remain the main banking communication method for consumers. Almost 4 in 5 consumers have visited a branch in the last year, with over 60% visiting a branch customer service representative, but their channel choices run the gamut when consumers identify the many channels they've used in the past 12 months.

Each of the other channels besides branch—ATMs, online banking, call centers, and mobile banking—is represented in the survey results as well. The variety of channels listed reflects the many banking methods used by consumers, and this variety is a key factor in the need for, and popularity of, omnichannel banking.

Even relatively new forms of communication are gaining traction. The use of mobile banking via mobile Web online and downloadable mobile apps is closing in on double-digit usage rates and is on the increase.

Figure 3: Banking Communication Methods Used by Consumers in Past Year



Source: Mercator Advisory Group CustomerMonitor Series, 2011

Financial Institutions Are Looking Across Industries for Inspiration

Looking at Airlines and Apple Stores

While conducting research for various reports on banking channels, Mercator Advisory Group has found that several forward-thinking FIs were studying how best to reach out to and engage with their customers and members. At the core of their research was a strong desire to understand how consumers choose to interact with retail companies in other industries.

A recurring theme of interest has been the design, flow, and processes of Apple retail channels, particularly the stores themselves. Also frequently cited has been the use of airport kiosks for check-in, boarding passes, and seat assignments.

The Apple store theme has piqued the interest of many FIs. Apple stores' open design and knowledgeable and helpful staff are but a few of the features thought to excite prospects and customers. In fact, the attraction is based on far more complex factors, including product innovation, quality, and market execution. In many ways, retail stores (including the retail banking channel) are undergoing a metamorphosis of sorts in some industries.[ii,iii]

Airport kiosks are also being reviewed as FIs look to integrate self-service and semi-self-service methods of serving customers. In addition to using new technology with the kiosks to validate customers' credentials and help them with the check-in process, the use of greeters and customer service agents on the concourse floor provides personal service when needed and helps to ensure an efficient check-in experience.

What is occurring in the retail environment today is an integrated approach to reaching customers, one that transcends individual channels and includes the best aspects of each channel so customers can choose when and where they use one or more channels.

Consequently, FIs should thoroughly evaluate how best to replicate the key elements of a retail shopping experience in the context of banking.

Extending the Retail Omnichannel Concept to Banking

As customers become more comfortable with omnichannel experiences in their retail experiences, many will soon expect more from their banking providers in the form of instantaneous and coordinated information and higher levels of customer service.

However, there are differences between a customer's omnichannel experience with a retail merchant and omnichannel interaction with a financial institution. A retail customer's omnichannel transaction may involve ordering a product online, followed by fulfillment of the order via shipping of the product to the customer's home or to a store for pickup at a store location, something not generally seen in banking. Even though this sequence of interactions could occur in certain instances, as when a customer is ordering products online such as foreign currency or debit, credit, and prepaid cards, it is certainly not a common occurrence because FIs must comply with government Know Your Customer (KYC) requirements.

One of the methods being used today by some FIs is to extend core system information to channel systems immediately and in real time. This often means extending their reach to customers and members not only within a channel but across channels—and even to core and back-office systems—creating an environment that allows almost simultaneous access to all channels.

This approach is not new, and is in reality an extension of the omnichannel retailing strategy used successfully by many retail merchants. Omnichannel retailing includes a coordinated, seamless approach across channels, where customers can access and interact with their accounts when, where, and how they choose.

To successfully execute an omnichannel strategy requires a business model in which information from all transactions is immediately available to FI employees, no matter the channel, as well as a strong information technology foundation that includes robust data management and interoperability between disparate systems.

This reliance on data is critical to the success of omnichannel banking and includes a need for real-time information at the point of customer contact as well as data mining and analytics to turn this data into useful information to better understand and predict customers' needs and behaviors.

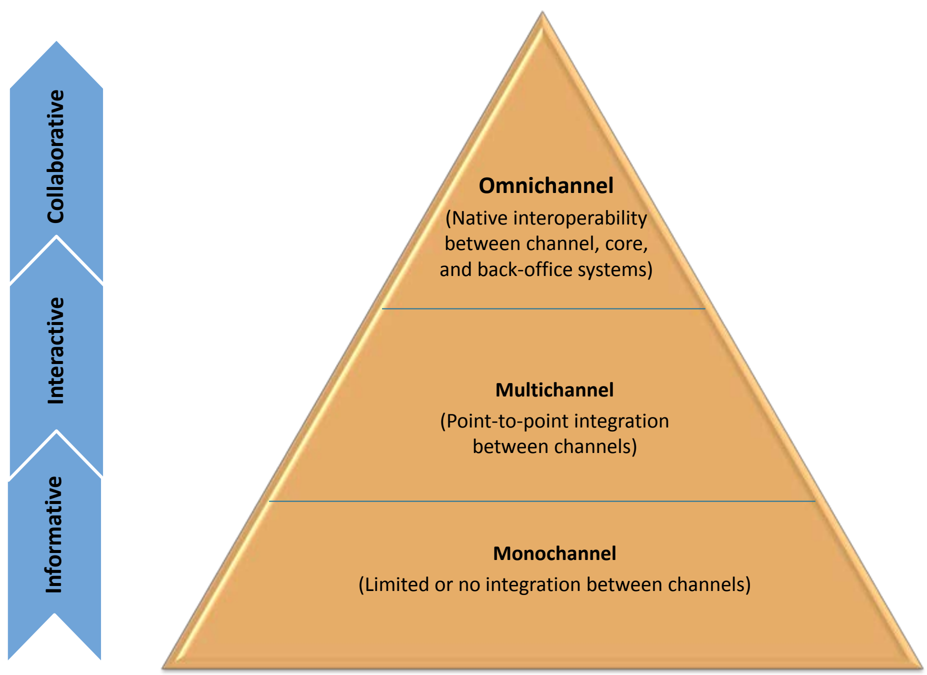
Maximizing the Customer Experience via Omnichannel Banking

Many financial institutions are mindful of the benefits that a move from a siloed, monochannel environment to multichannel environment and then an omnichannel environment can mean to customers (Figure 4).

Several years ago, there was a movement to link various individual monochannels to form a more cohesive and integrated multichannel business model. Although many of these linkages had relatively simple point-to-point integration, they were (and still are) effective. Since then, increased attention has been placed on more fully understanding customers' wants, needs, and behaviors and maximizing customer satisfaction, spurring the initiative called omnichannel banking.

Omnichannel banking opens ups new opportunities for FIs to better understand and serve their customers because of the tight linkages between the channel, core, customer relationship management (CRM), and back-office systems. This interoperability allows increased knowledge of the ways in which customers prefer to transact and interact with the institution, fostering increased communication and engagement based on customer desires. All of this contributes to a strong partnership between customer and FI and results in a superior overall customer experience.

Figure 4: FIs Are Increasingly Adopting an Omnichannel Business Environment



Source: Mercator Advisory Group

Evolving Channel Strategies

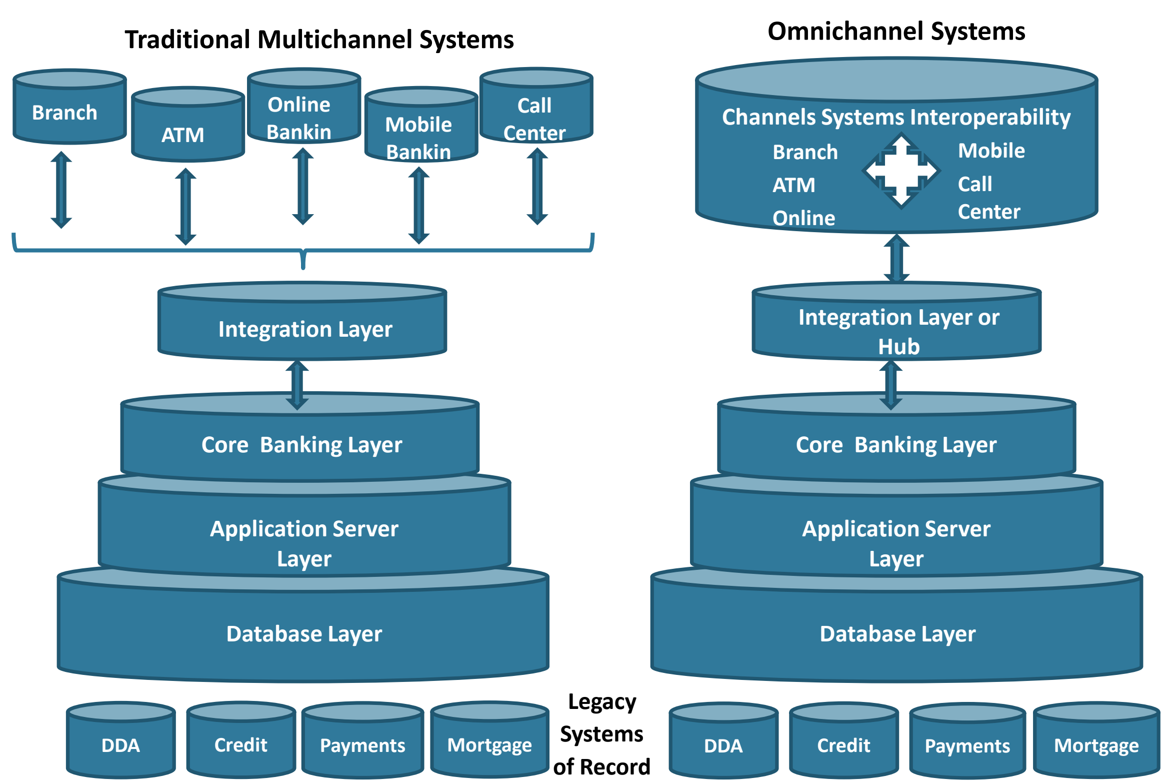
Creating the Next Phase of Banking

In their quest to find better ways to reach out to and engage with customers, FIs are seeing the inherent value in leveraging their delivery channels. Many have begun embracing a multichannel collaboration approach, which requires integration and interoperability between the channels to allow visibility into account information in each channel.

Some FIs are extending this concept further by creating an omnichannel environment whereby information in the channels is centrally located or replicated in real time so the customer experience is the same no matter the channel used or whether a task is started in one channel and completed in other.

An omnichannel environment has broader and deeper interoperability among and between channel systems as well as with the core banking environment (Figure 5).

Figure 5: Multichannel vs. Omnichannel Environments



Source: Mercator Advisory Group

Such solutions differ considerably from batch systems, which replicate information periodically, sometimes daily, weekly, or even monthly. With the availability of instantaneous or near-instantaneous account updates, customers are more likely to consider using self-service channels to query their accounts or conduct business rather than visiting a teller for routine transactions. Some FIs have noted that with updated channel systems, many, if not most, teller transactions can be transitioned to other channels.

Such tight integration can also profoundly influence the speed and quality of banking interactions globally. In many countries, banks have a limited branch footprint, particularly in rural areas. These bank branches can include dedicated spaces offering limited services within a store or other retail. With a coordinated omnichannel environment, customers can access their accounts in whichever manner suits their needs, toggling back and forth between self-service channels (such as mobile banking or call centers) and interacting with the branches (in whatever form) as they desire.

While omnichannel banking needn't be a wholly technical solution, particularly for smaller FIs, integrated processes often are included as part of a systems approach. In such cases, traditional channel systems are essentially siloed systems that may have integration points between the FI core system and individual channel systems, as well as integration between channel systems.

Small to midsized FIs migrating to omnichannel banking will need to take a somewhat more incremental approach than larger institutions. With comparatively unlimited resources, large institutions can afford to spend the time (several years) and money (starting at tens of millions of dollars) to upgrade their core, channel, and back-office systems. Smaller FIs, however, will often need to take a more conservative and measured approach.

As many small FIs work with systems written and/or managed by partners (Accenture, ACI, Cardtronics, Cisco, Diebold, Euronet, FIS, Fiserv, Intuit, Jack Henry Associates, Harland Financial Services, IBM, Infor, NCR, Oracle, SAP, Vantiv, Wincor Nixdorf, and Zoot Enterprises to name a few), they may be able to take an incremental approach toward the ultimate goal of offering an omnichannel solution by deploying upgrades in stages over time, perhaps as part of scheduled upgrades of underlying systems.

Case Study 1: Citibank's Project Rainbow

Citibank is in the process of redesigning and reengineering its core and channels systems platforms. Called Project Rainbow, the initiative is part of a multibillion-dollar, multiyear investment in the company's IT infrastructure.

Rainbow includes a rearchitecting of the bank's core system to include real-time access to a wide variety of customer accounts. Because of the many disparate systems involved, Rainbow will be executed in multiple phases over time.

Also under development as a subset of Rainbow is a system called Centralized Offer Palette System (COPS), which involves enhancements in the institution's real-time marketing, customer acquisition, offer management, and channels systems, including improved cross-channel visibility.

As its name implies, a main objective of this system is to improve the quality and quantity of qualified offers to customers, to extend and leverage offers across channels, and to provide visibility of these offers to sales and service employees. It may also help to increase the migration of the number of common teller transactions to self-service channels from an already-impressive 65% to 80% or higher.

While the efficiency increases and cost savings associated with such efforts are welcomed, the primary goal of this initiative is to provide real-time access and superior service to customers, and to enable them to bank when, where, and how they choose.

Case Study 2: BBVA Compass Banking Systems Overhaul

BBVA Compass is in the process of implementing a multiyear, $362 million overhaul of its core banking and channel management systems that exemplifies an omnichannel experience although BBVA does not identify the project that way.

The company has consolidated over two dozen customer information files and CRM records into a single customer database that provides visibility into customer transactions and behavior.

The main objective of the initiative was to develop a system that processes all retail transactions in real time, unlike the legacy batch system that was previously used. A main impetus of the change was to provide immediate account updates between channels as well as a seamless customer experience across them.

The new system, which includes deployment of the Accenture Alnova core system, has already begun to deliver measurable results to the organization. The company had estimated that the new system would reduce costs by about 20% by 2015 but is already seeing cost reductions approaching 15%, partly because of image depositing capabilities in the branches and across the channels, reducing or eliminating courier and back-office costs.

Other benefits include faster account opening times (a reduction from more than 40 minutes to open a new deposit account to about 5 minutes) as well as improvements in customer loyalty and retention. For example, the bank can now identify customers whose certificates of deposit are coming due so as to create targeted leads and reach out to them to suggest possible savings or investment products.[iv]

Real-World Implementations Are Proving Difficult

For all the promise that omnichannel banking holds, few if any institutions can say that they've completed omnichannel deployment. This is because omnichannel implementations are hard to do because they touch almost every customer system.

Because of this long and difficult path, most FIs that have embarked on deployment of omnichannel banking are on a multiyear journey. While creating coordinated processes and systems is a primary goal, it is often difficult to execute across the many legacy systems a banking institution has developed or acquired over the years.

At its foundation, omnichannel banking is a multifaceted mixture of CRM and channel solutions that together augment an FI's core system. Since the solutions reside in disparate systems, their integration poses technological and financial challenges that raise the level of complexity and create headwinds that impede swift implementation.

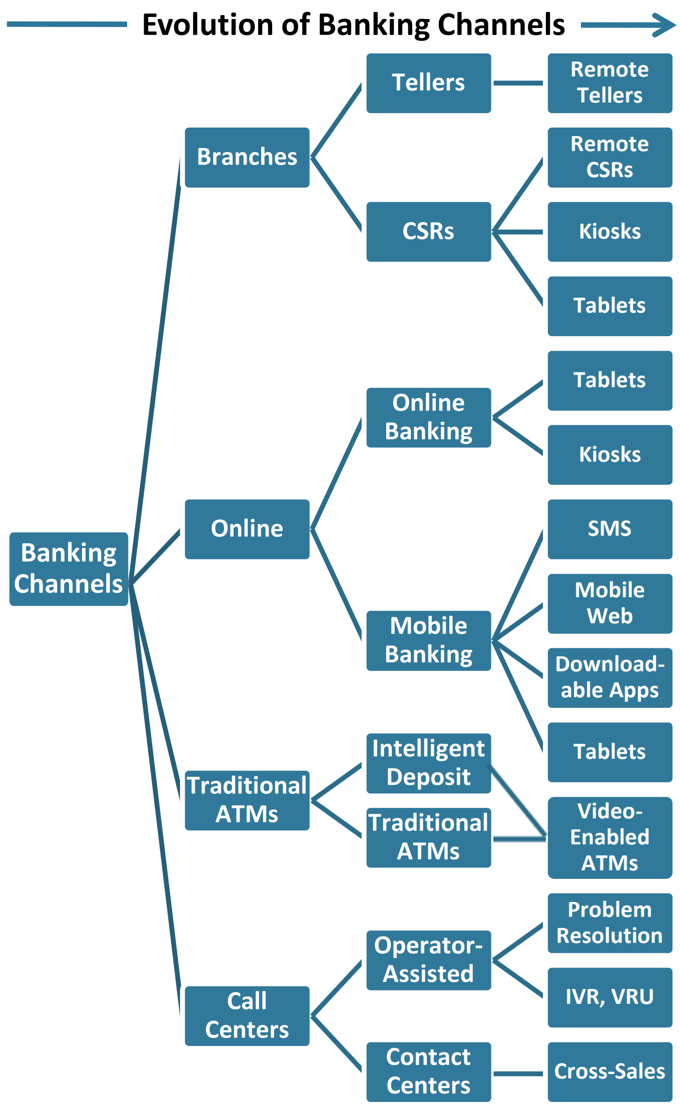
Attaining a cohesive view of customer activity and behaviors across lines of business adds layers of difficulty and complexity. Synchronizing the data from the various sources to provide real-time access is challenging, particularly with core and disparate legacy channels systems.

Not only is it difficult to enable visibility into account information across systems, but it is inherently challenging to attain real-time integration across channels and between accounts and systems. Examples include creating and continuing account opening processes across channels and updating and transferring funds between demand deposit accounts, loans, and investment accounts.

Striving to achieve an omnichannel environment is worthwhile despite the difficulties, however, since all of these levels deeply influence customer interaction and service levels and can have a profound effect on the overall customer experience if the migration is executed successfully.

As can be seen in Figure 6, channels continue to expand with each advancement adding to the complexity of the underlying systems. The individual channels are not eliminated but instead become more entwined and integrated into the larger channels infrastructure, making deployments and upgrades difficult.

Figure 6: The Ever-Expanding Channels Infrastructure Makes Omnichannel Deployments Difficult



Source: Mercator Advisory Group

Solutions Examples

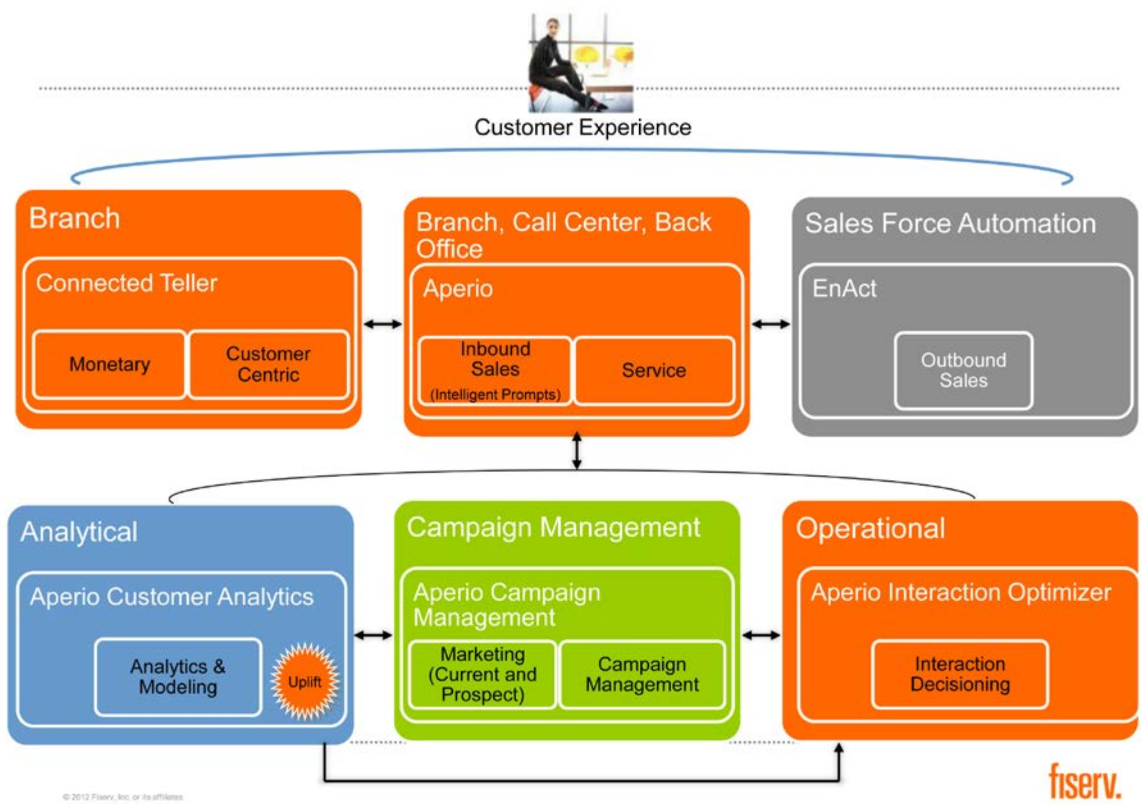
Aperio from Fiserv

As can be seen in Figure 7, Aperio from Fiserv demonstrates the company's omnichannel philosophy. An underlying philosophy behind Aperio is to better identify and understand how FIs can best service their customers by offering visibility into customer needs through views of core, channel, CRM, and back-office systems.

At the foundation of the solution are operational and analytics tools designed to interact and find nuggets of information critical to understanding individual customers' wants, needs, and behaviors and an infrastructure to execute appropriate plans, programs, and offers and instantly take action.

The process involves input from various departments and systems, including sales, marketing, analytics, campaign management, and operations, and it presents a comprehensive view of customer needs, priorities, and behaviors.

Figure 7: Fiserv Aperio Enhances the Customer Experience by Allowing Interaction with Various FI Systems



Source: Fiserv

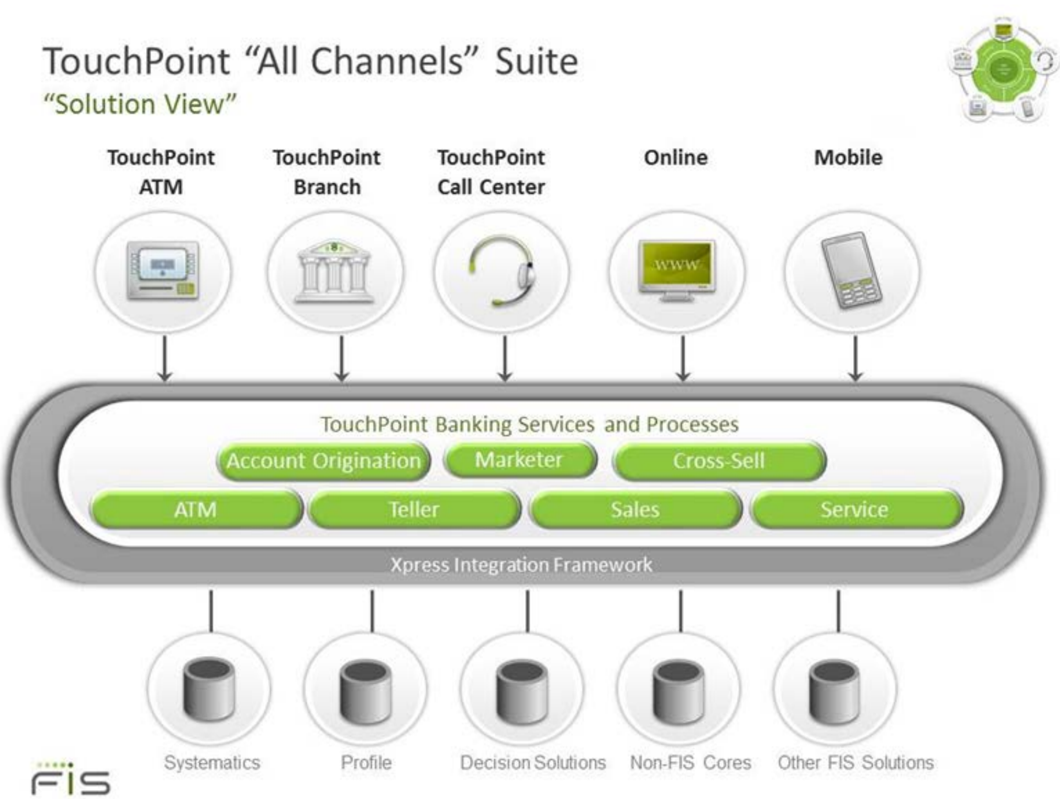
FIS All Channels Suite

FIS notes that it has been espousing an omnichannel philosophy for some time with its All Channels Suite. The underlying philosophy of the suite is to enable financial institutions to define and enable orchestration of customer interactions as well as provide visibility of customer transactions and behaviors within and across channels and geographies.

Inherent in the suite are linkages designed to better understand the methods of interaction and the products and services that appeal to customers. The system provides a framework that identifies linkages to customer transactions and patterns of behavior, including ways to uncover subtle differences in preferred methods of interaction by customer type.

By offering a holistic view of customer interactions and behaviors, FIs can better determine which channels or methods of interaction work best for particular customers under specific situations and can tailor their communication and engagement strategies based on these findings and insights, an optimization that would not be possible without such tight integration between disparate departments and systems.

Figure 8: FIS TouchPoint "All Channels Suite" Takes a Holistic View of Customer and FI Interaction



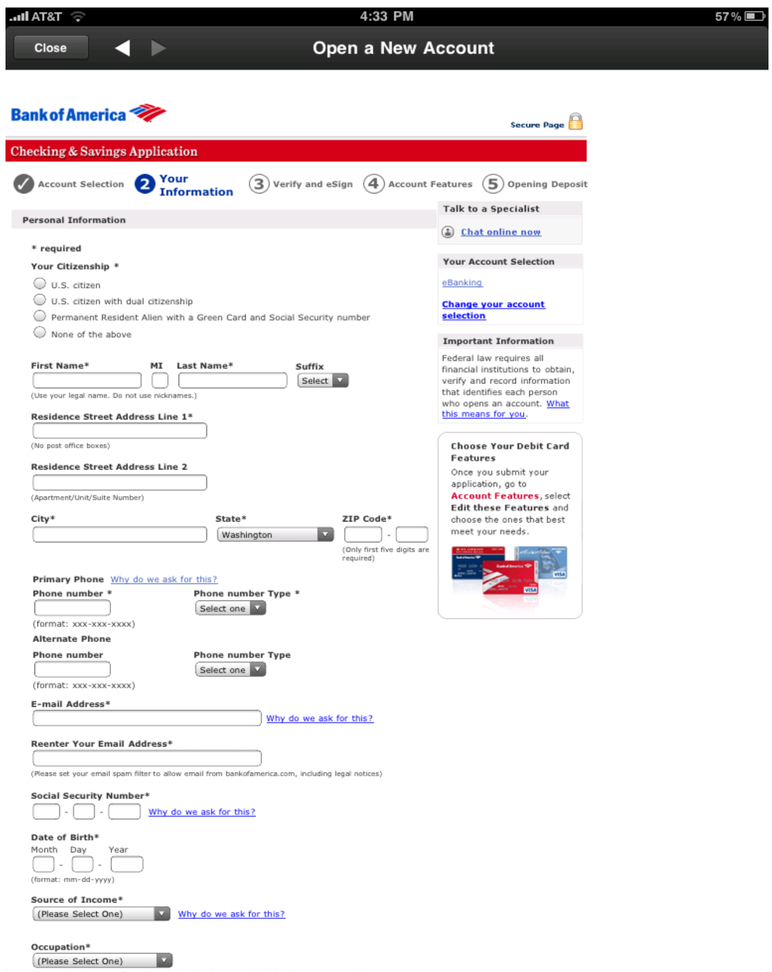
Source: FIS

Benefits of Omnichannel Communication

Checking, Savings, and Loan Applications

It is no longer necessary for a bank customer to visit a branch to inquire about products or services or to submit an application for a new account. As can be seen in Figure 9, a wide variety of account applications can now be completed online or via mobile devices. Information entered in the form fields in one channel can be made available and shared across other channel systems, allowing near-instantaneous access to customer information and insight into customer behaviors. Providing such access across channels offers visibility into various systems that previously were silos of information and would have required time-consuming batch processes to complete the form. With omnichannel processes, information and approvals can be available much quicker than before.

Figure 9: A Checking and Savings Account Online Application Form


AT&T 4:33 PM 57 %
Close
Open a New Account
Bank of America
Secure Page
Checking & Savings Application
Account Selection
2 Your Information
3 Verify and eSign
4 Account Features
5 Opening Deposit

Personal Information

* required

Your Citizenship *
U.S. citizen
U.S. citizen with dual citizenship
Permanent Resident Alien with a Green Card and Social Security number
None of the above

First Name* MI Last Name* Suffix Select
(Use your legal name. Do not use nicknames.)

Residence Street Address Line 1*
(No post office boxes)

Residence Street Address Line 2
(Apartment/Unit/Suite Number)

City* State* Washington ZIP Code*
(Only first five digits are required)

Primary Phone Why do we ask for this?
Phone number * Phone number Type * Select one
(format: xxx-xxx-xxxx)

Alternate Phone
Phone number Phone number Type Select one
(format: xxx-xxx-xxxx)

E-mail Address* Why do we ask for this?

Reenter Your Email Address*
(Please set your email spam filter to allow email from bankofamerica.com, including legal notices)

Social Security Number* Why do we ask for this?

Date of Birth*
Month Day Year
(format: mm-dd-yyyy)

Source of Income* (Please Select One) Why do we ask for this?

Occupation* (Please Select One)

Talk to a Specialist
Chat online now

Your Account Selection
eBanking
Change your account selection

Important Information
Federal law requires all financial institutions to obtain, verify and record information that identifies each person who opens an account. What this means for you.

Choose Your Debit Card Features
Once you submit your application, go to Account Features, select Edit these Features and choose the ones that best meet your needs.

Source: Bank of America

Advanced Capabilities in ATM and Remote Teller Machines

Electronic ID scanning and signature capabilities and other recent advancements in channel systems allow FIs to move some traditional teller transactions to self-service channels (Figure 10). By offering access across core, back-office, and channels systems, FIs can identify and approve transactions and queries immediately and accurately, enabling fast and efficient interactions with customers.

Figure 10: Electronic ID Scanning and Signature Capabilities at a Remote Teller Machine

Source: NCR

Creating a Coordinated Self-Service Experience

Omnichannel communication enables the customer to use multiple channels or devices to plan and execute transactions. In the example illustrated in Figure 11, by synchronizing data between channels, in this case for a customer prestaging a withdrawal with a mobile device prior to visiting an ATM where he or she can quickly and easily complete the transaction by scanning a QR code, an FI enables a fast and efficient process for customer fulfillment.

Figure 11: Prestaging ATM Transactions with a Mobile Phone

Source: NCR

Combining Self-Service with Personalized Service

A trend that is increasing is FIs' melding of the self-service and full-service channels, particularly ATMs, branch, and call/contact center channels. One example is the combined use of ATM and remote teller systems (Figure 12). Customers have the choice of full self-service or assisted service by connecting to a live, centralized teller for a personalized, high-quality, two-way video/audio interaction. Using unique technology that allows the teller to remotely drive the ATM transaction for the customer in real time, the solution not only supports regular banking transactions but also lets customers discuss their needs for additional financial products and services.

Figure 12: Combining the Features of the ATM, Branch, and Call Center Channels

Source: NCR

Conclusions and Strategic Implications

The challenging economic climate has caused financial institutions to review their corporate strategies and business practices and driven changes in the way customers are serviced. As financial institutions, particularly savings institutions, reduce the number of the branches they operate, they are on a quest to find and implement processes and systems that promise greater efficiencies and productivity.

Customer branch visits are also waning, albeit gradually, highlighting the need for improved, customer-centric processes in the self-service channels to augment branch capabilities and provide high levels of customer outreach and satisfaction, boosting overall FI profitability.

Many FIs are looking to retail shopping channels such as those of Apple Inc. and the airlines for inspiration on new ways of reaching out and communicating with customers. In the process, they are discovering the potential value and important impact that well-designed and executed omnichannel business systems can have on overall customer satisfaction.

Such systems are progressing from a siloed channels environment to one that is coordinated, synchronized, and interrelated, and the relationship between traditional branch banking and channels management continues to evolve.

This transition from a multichannel to an omnichannel environment is the next step in channel strategy for many FIs. The journey will require significant upgrades or replacements of core systems—a significant chore—as well as integration with CRM and channel management systems, often with the help of core, back-office, and channel systems partners. For many FIs, particularly small to midsized institutions, this means that future enhancements will need to be executed incrementally, in bite-sized steps, because of the enormity of the task at hand.

While the ramp-up to these next phases will be increasingly difficult to execute, the end result will be worthwhile for FIs and customers alike, even if takes several years to implement.

For more information about this report, please contact:

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For additional copies of this report or any questions, contact Mercator Advisory Group at 781-419-1700.

End Notes

[i] FDIC Summary of Deposits, June 30, 2012

[ii] Harvard Business Review, "Retail Isn't Broken. Stores Are," December 2011

[iii] Deloitte Consulting, "If You Build it, They Will Shop," October 12, 2012

[iv] American Banker, "BBVA Compass Reaps Cost Cuts, Competitive Edge from Tech Overhaul," November 7, 2012